

## Cement Sector Update: May 2009

- Cement dispatches up 13.1% YoY in April 2009
- Capacity utilisation at 92% in April 2009; southern region lags

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### Robust growth

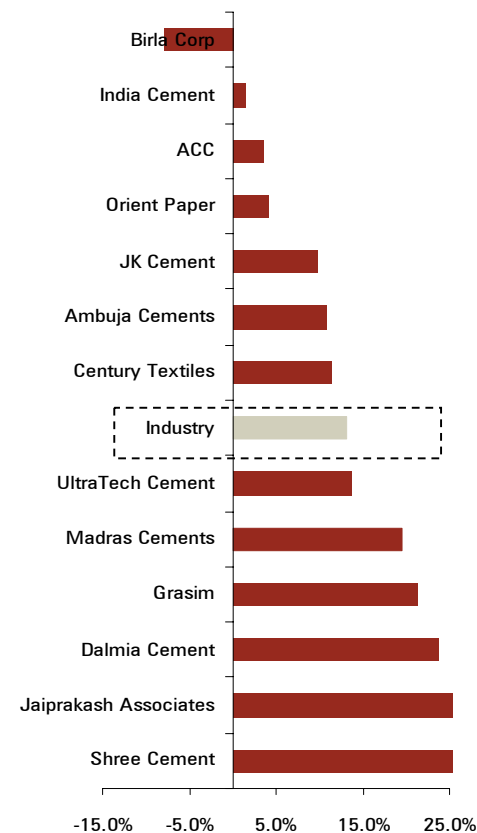
In April 2009, all-India cement dispatches reported a growth of 13.1% YoY on the back of spending in construction activities by the government before election. On an MoM basis, cement dispatches were down 8.1% mainly on account of a drop in capacity utilisation. Capacity utilisation dropped to 92% in April 2009 against 103% in March 2009.

Among major players, Shree Cement, Jaiprakash Associates, Dalmia Cement and Grasim have reported impressive growth of 28.4%, 28%, 23.7% and 21.3% YoY, respectively. Madras Cement and UltraTech Cement have also reported good growth that is higher than the industry average. The strong growth in the dispatches of these players was primarily on account of capacity additions. Birla Corp has reported negative growth of 7.9% in dispatches.

### Outlook

As demand normally slows down post elections and the monsoon season is around the corner, we expect demand to get stalled in the coming months. Apart from this, capacity additions would put further pressure on realisations. However, with softening of coal/petcoke prices, cost pressure for the cement industry has been easing out considerably. Also, most of the cement players have consumed their high cost coal/petcoke inventories. Thus, most players are expected to report sequential improvement in profits. However, the adverse demand-supply situation will force cement companies to pass on the savings by reducing prices in the medium-term.

Exhibit 1: YTD cement dispatches growth (%)



Source: CMA

Exhibit 2: Valuations

	EPS			P/E			EV/EBITDA			EV/Tonne			RoNW (%)			RoCE (%)		
	FY08	FY09	FY10	FY08	FY09	FY10	FY08	FY09	FY10	FY08	FY09	FY10	FY08	FY09	FY10	FY08	FY09	FY10
ACC	67.5	62.5	58.1	10.7	11.5	12.4	6.4	7.1	7.2	112.8	112.7	103.0	34.8	25.9	20.7	39.7	32.8	27.4
Ambuja	8.3	7.4	7.4	10.5	11.7	11.8	5.7	7.2	6.4	133.9	119.4	116.2	30.8	21.9	18.5	39.6	27.7	24.8
UltraTech	80.4	78.0	65.5	8.1	8.3	9.9	5.6	5.7	5.7	108.9	87.5	72.5	45.2	31.1	20.8	40.7	29.3	22.4
Shree Cem	82.6	165.9	129.2	11.1	5.5	7.1	4.0	3.3	3.2	77.8	70.3	60.6	51.1	61.2	31.6	26.6	34.7	23.6
India Cem	23.5	18.6	19.0	5.5	6.9	6.8	4.3	4.1	3.7	110.4	91.1	62.6	32.9	18.8	16.8	24.3	18.6	17.4
JK Cem	37.9	18.4	22.3	2.0	4.1	3.4	2.1	5.9	3.6	41.7	74.0	40.0	41.5	15.7	16.3	26.0	12.5	13.5
Orient Paper	10.9	12.2	9.3	3.4	2.5	4.0	2.4	2.2	2.2	44.4	44.2	25.0	66.9	38.5	24.3	59.7	39.7	27.0
Dalmia Cem	43.0	18.2	17.4	2.2	5.3	5.5	3.5	5.7	4.4	80.3	116.2	60.1	36.6	12.1	10.3	22.9	10.7	10.0

Source: Company, ICICIdirect.com Research

Note: Note: ACC's and Ambuja's numbers are for CY07, CY08 and CY09

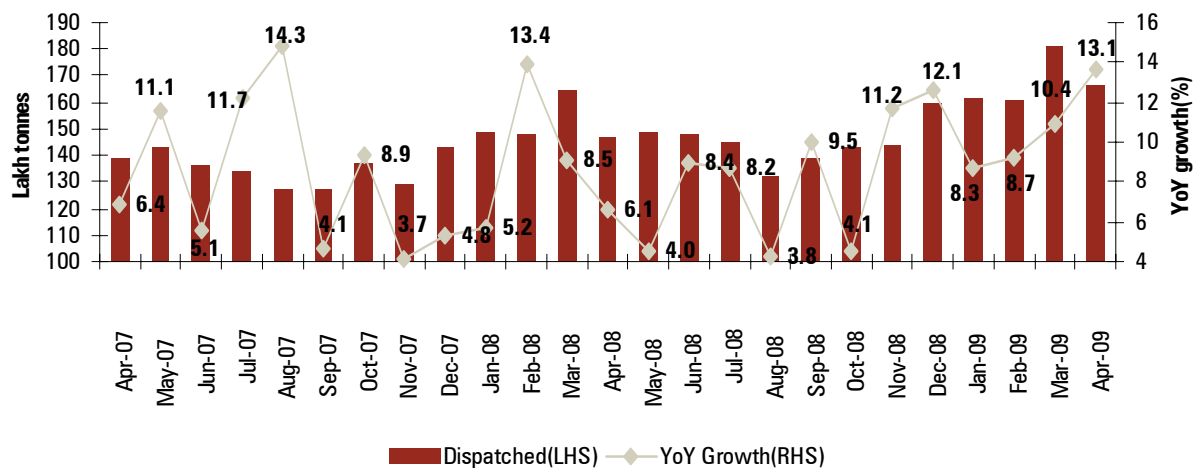
### Exhibit 3: Cement dispatches of major players

Lakh Tonnes

Company Name	Apr. 09	Apr. 08	YoY (%)	Mar. 09	MoM (%)
ACC	17.7	17.1	3.6	20.1	-12.0
Ambuja Cements	16.4	14.8	10.8	17.2	-4.9
Grasim*	15.8	13.0	21.3	17.1	-7.7
UltraTech Cement	15.8	13.9	13.7	16.3	-2.9
Shree Cement	7.9	6.1	28.4	8.4	-5.8
India Cement	7.8	7.7	1.4	8.3	-5.2
JK Cement	3.4	3.1	9.7	3.7	-7.6
Madras Cements	6.1	5.1	19.6	5.8	4.5
Birla Corporation	3.7	4.1	-7.9	5.3	-30.0
Century Textiles	6.8	6.1	11.3	7.3	-7.3
Jaiprakash Associates	7.9	6.2	28.0	7.8	1.2
Orient Paper	2.3	2.2	4.2	2.5	-7.8
Dalmia Cement	3.3	2.7	23.7	3.5	-6.1
<b>Industry</b>	<b>166.5</b>	<b>147.2</b>	<b>13.1</b>	<b>181.2</b>	<b>-8.1</b>

Source: CMA, ICICIdirect.com Research

### Exhibit 4: All-India cement dispatches & YoY growth (%)



Source: CMA, ICICIdirect.com Research

## Region wise performance

Among major regions, the northern region has reported the highest growth of 19.6% YoY led by incremental demand from major projects, namely, Commonwealth Games, sewerage line project in Punjab, national irrigation project in Haryana, Delhi Metro, flyover and Delhi airport. Also, re-imposition of CVD and special CVD on imported cement has contributed to growth from northern players. The southern region has reported growth of 12.8% YoY driven by higher demand from irrigation projects. The western region has reported 11.2% growth in dispatches. The central region's dispatches have reported growth of 10.5% YoY due to spending by the UP government on low-cost housing. The eastern region has reported growth of 8.8%.

### Exhibit 5: Region wise cement capacity, production & dispatches

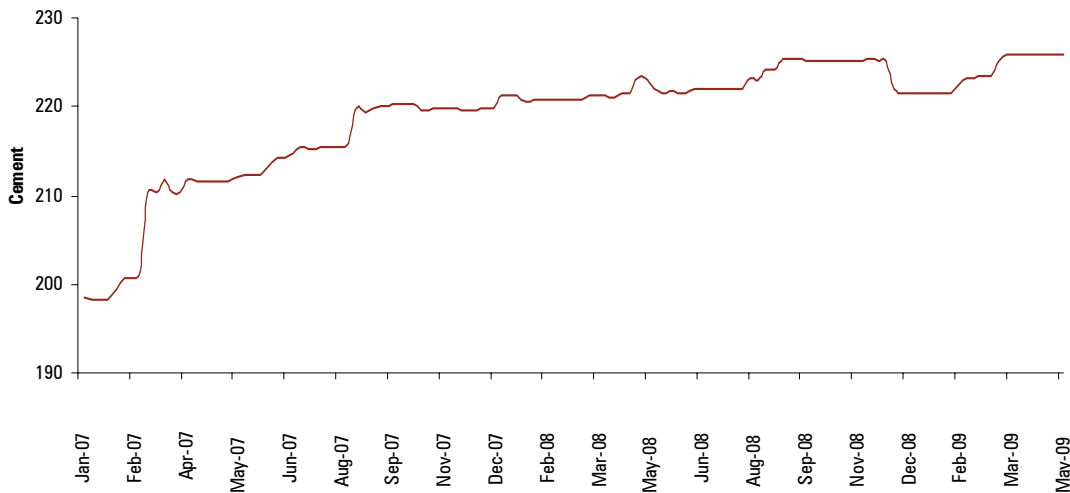
Regions	Apr. 09	Apr. 08	YoY (%)	Mar. 09	MoM (%)
<b>North</b>					
Capacity	41.6	39.6	5.2	40.3	3.3
Production	37.9	32.9	15.3	42.3	-10.4
Dispatched	37.7	31.6	19.6	42.2	-10.7
Capacity Utilisation(%)	91.1	83.1		105.0	
<b>East</b>					
Capacity	24.9	24.2	3.1	24.9	0.0
Production	24.1	22.2	8.3	27.4	-12.1
Dispatched	23.8	21.9	8.8	27.5	-13.4
Capacity Utilisation(%)	96.6	92.0		110.0	
<b>South</b>					
Capacity	64.9	49.8	30.4	60.9	6.7
Production	54.3	47.6	14.2	57.7	-5.9
Dispatched	53.3	47.2	12.8	58.0	-8.1
Capacity Utilisation(%)	83.6	95.5		94.8	
<b>West</b>					
Capacity	27.9	26.5	5.2	27.0	3.4
Production	27.1	24.8	9.1	27.8	-2.6
Dispatched	27.2	24.5	11.2	27.5	-1.0
Capacity Utilisation(%)	97.1	93.6		103.1	
<b>Central</b>					
Capacity	23.0	23.5	-1.8	23.5	-1.8
Production	25.1	22.8	10.1	25.8	-2.9
Dispatched	24.5	22.1	10.5	26.0	-5.9
Capacity Utilisation(%)	108.8	97.0		110.0	

Source: CMA, ICICIdirect.com Research

## Cement prices

Among major cities, cement prices in Kolkata increased by around Rs 13 per bag or 5.4% MoM. In Delhi and Mumbai, prices have increased by Rs 6 per bag (2.7%) and Rs 4 per bag (1.7%), respectively MoM. In Chennai, prices have remained flat as the capacity addition in the southern region pressurised the utilisation level.

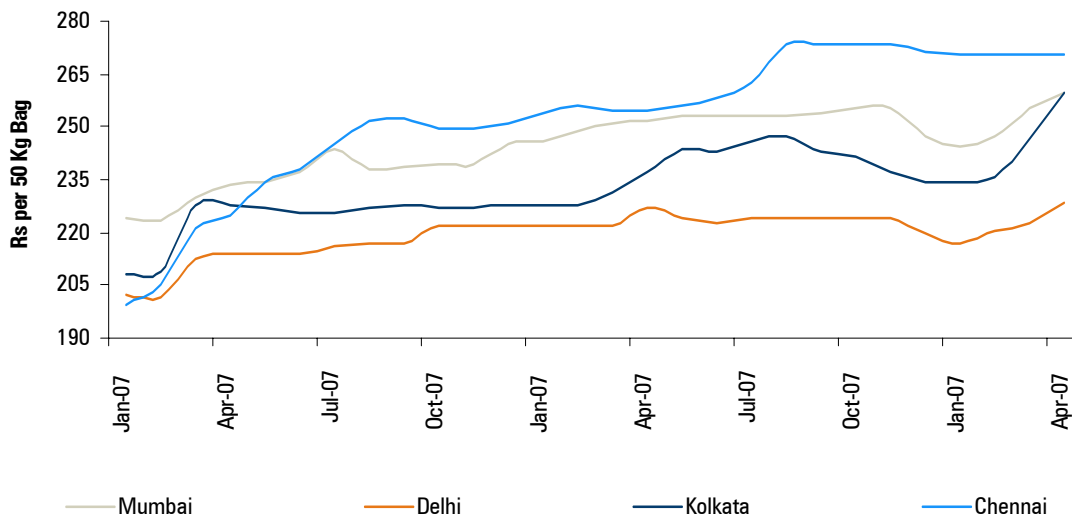
### Exhibit 6: Cement WPI



Source: Bloomberg, ICICIdirect.com Research

Note: Cement WPI indicates movement of average cement prices in India

### Exhibit 7: Cement prices in major cities

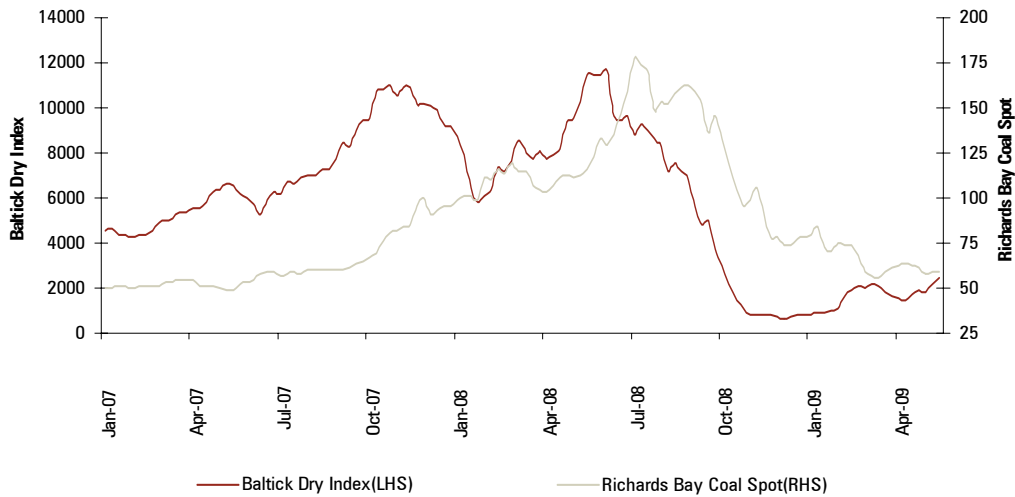


Source: CMIE, ICICIdirect.com Research

## Cost pressure eases out

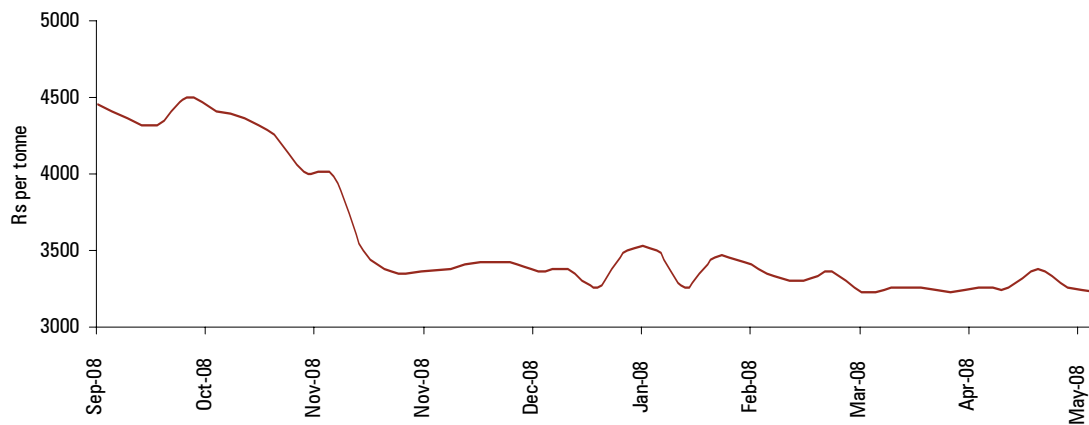
International coal prices have declined by 7.2% to US\$58.8 per tonne as on May 15, 2009 from a two-month high of US\$63.35 per tonne. Nevertheless, it is still 67% down from its peak. The benchmark index for sea freights, the Baltic Dry Index, has increased by 45% MoM but is still down 79% YoY. However, part of the benefit of low coal prices has been partially neutralised by the depreciation of the rupee. The decline in international coal prices and sea freight has reduced landed costs of imported coal for cement companies.

### Exhibit 8: Baltic Dry Index & international coal prices



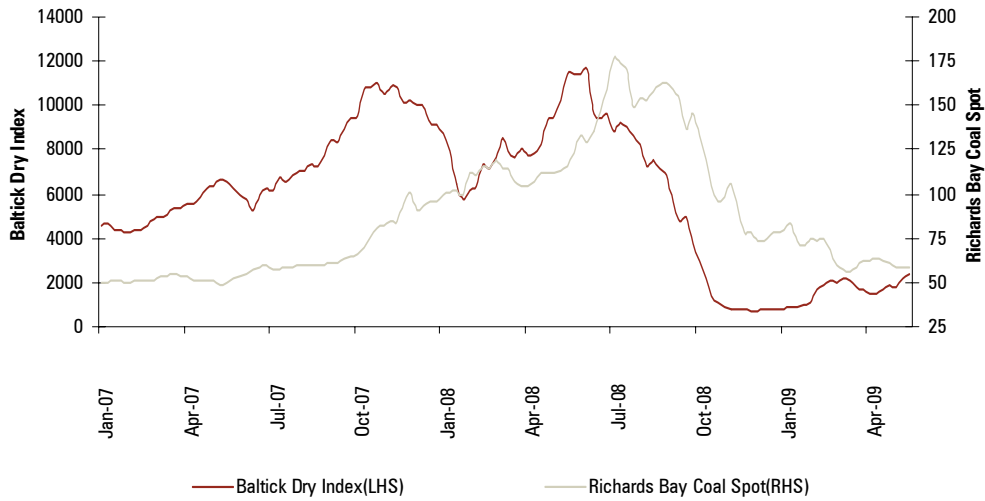
Source: Bloomberg, ICICIdirect.com Research  
Note: Baltic Dry Index indicates the movement of sea freight rates

### Exhibit 9: Thermal coal prices spot prices, NCDEX



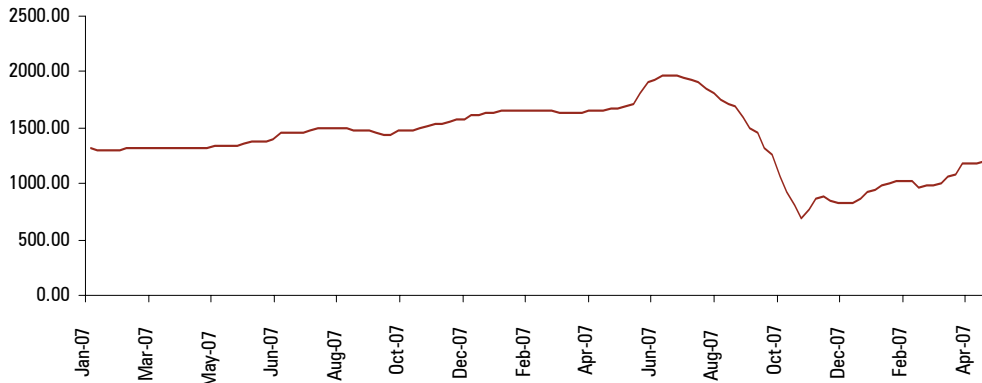
Source: NCDEX, ICICIdirect.com Research

**Exhibit 10: International crude oil prices & domestic diesel price**



Source: Bloomberg, Reuters, ICICIdirect.com Research

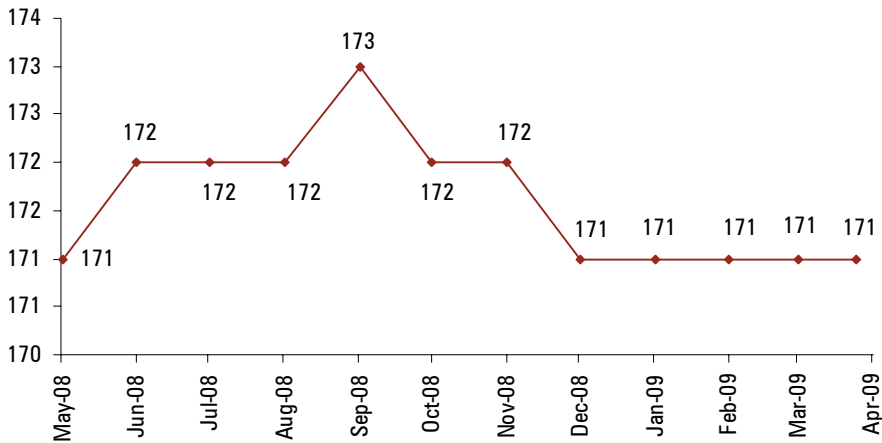
**Exhibit 11: HDPE prices (packing material)**



Source: Bloomberg, ICICIdirect.com Research

Note: Size of the bubble indicate YoY fall in EBITDA margins in bps

**Exhibit 12: Indian Road Freight Index**



Source: TCIL

### Outlook

As demand normally slows down post elections and the monsoon season is around the corner, we expect demand to get stalled in the coming months. Apart from this, capacity additions would put further pressure on realisations. However, with softening of coal/petcoke prices, cost pressure for the cement industry has been easing out considerably. Also, most of the cement players have consumed their high cost coal/petcoke inventories. Thus, most players are expected to report a sequential improvement in profit. However, the adverse demand-supply situation will force cement companies to pass on the savings by reducing prices in the medium-term.

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